

SUMMARY ANALYSIS OF AMENDED BILL

Author: Ashburn Analyst: Colin Stevens Bill Number: AB 1914

Related Bills: See prior analysis Telephone: 845-3036 Amended Date: 4/15/98

Attorney: Doug Bramhall

Sponsor:

SUBJECT: Vehicles Tested By Bar-97 Equipment Credit

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _____.

☒ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

☒ AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as amended March 23, 1998.

☒ FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO _____.

☒ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED MARCH 23, 1998, STILL APPLIES.

OTHER - See comments below.

SUMMARY OF BILL

Under the Personal Income Tax Law (PITL) and the Bank and Corporation Tax Law (B&CTL), this bill would allow a credit equal to \$50 for each vehicle owned by the taxpayer and tested during the year by equipment required under Smog Check II.

SUMMARY OF AMENDMENT

The April 15, 1998, amendments remove:

- the sales tax exemption; and
- the credit for the cost paid by the taxpayer to purchase equipment required for vehicle inspections by the Health and Safety Code to implement Smog Check II.

Except for the removal of the provision regarding the purchase of Bar-97 equipment and the new position, the department's analysis of the bill as amended March 23, 1998, still applies. The department's concerns and the revenue estimate which pertain to the remaining credit are stated below for convenience.

Policy Considerations

Most credits are enacted with a sunset date so the Legislature may review its effectiveness. This credit has no sunset date.

DEPARTMENTS THAT MAY BE AFFECTED:

___ STATE MANDATE

___ GOVERNOR'S APPOINTMENT

Board Position:

___ S ___ O
___ SA ___ OUA
___ N ___ X NP
___ NA ___ NAR
___ PENDING

Agency Secretary Position:

___ S ___ O
___ SA ___ OUA
___ N ___ NP
___ NA ___ NAR
DEFER TO _____

GOVERNOR'S OFFICE USE

Position Approved ___
Position Disapproved ___
Position Noted ___

Department/Legislative Director Date

Johnnie Lou Rosas 5/1/98

Agency Secretary Date

By: Date:

The \$50 credit for smogging a vehicle is not in lieu of any credit or deduction to which the taxpayer may be eligible. Therefore, if a taxpayer engages in business and has the business's car smogged, the taxpayer could deduct the cost of that smog check and claim a credit for the same smog check.

This bill would allow a credit equal to \$50 to test a vehicle. However, the credit amount is not tied to an expenditure. Therefore, it is possible that a taxpayer could pay less than \$50 to have his or her car smogged and receive a credit greater than the amount actually paid. In addition, there is no requirement that the vehicle ultimately meet acceptable emission standards.

Implementation Considerations

Department staff is available to work with the author's office to resolve these and other concerns that may arise.

This bill could significantly impact the filing of a California tax return as well as the department's costs due to the factors described below:

1. Currently, individuals with more complex income profiles and related tax calculations report income using Form 540. Special credits may only be reported on Form 540 because they have the potential to be limited by tentative minimum tax (TMT). Calculating the TMT limitation requires a number of steps after referring to an extensive set of instructions. Forms 540A, 540EZ and Telefile are targeted to serve individuals with less complex income profiles, and the TMT calculation is not explained in the related booklets. The objective of targeting is to avoid requiring taxpayers to read instructions or complete schedules they will not need.
2. Since millions of additional taxpayers could claim this credit, it would either require:
 - Millions of taxpayers to switch from simpler forms to the Form 540. The Form 540 costs more to process, has a higher error rate and causes more telephone calls to the department's taxpayer service center than other, simpler forms; or
 - The addition of the TMT calculation to Forms 540A and 540EZ (instructions would be too complex to add to the TeleFile booklet). Such changes could result in significant programming costs. Moreover, if the 540A and 540EZ were modified to accept the credit, significant programming costs would be incurred and additional errors would be expected on these forms.
3. Tax booklet distribution also is targeted to individuals, and they receive the current year booklet based on the tax form they filed last year. The numbers of each type of booklet printed (540, 540A, 540EZ and TeleFile) is relatively stable from one year to another. However, if a significant number of taxpayers shifted between Form 540 and other forms (because they may not be eligible for the credit each year and therefore may not need to file Form 540), the effectiveness of book distribution would decrease and could result in over or under printing of tax booklets.

In recent credits, the Legislature has limited the number of years the unused credit may be carried forward since most credits are exhausted in eight years. This bill permits an unlimited carryover of any unused credit.

Additionally, this credit would not require that smog check operators provide documentation that a taxpayer's smog check was performed using Bar-97 equipment. The smog check operator should provide documentation to the customers, since many individuals would not know what type of equipment was used to perform a smog check on their vehicle.

Technical Consideration

Standard carryover language provides that any excess credit may be carried forward to reduce tax in future years. Both the PITL and B&CTL language are missing the word "reduce." Amendments 1 and 2 would insert the word "reduce" in the appropriate place in the carryover language.

FISCAL IMPACT

Tax Revenue Estimate

Based on the discussion below, the revenue loss from this bill is estimated as follows:

Estimated Revenue Impact AB1914			
For Taxable or Income Years Beginning 1/1/98			
Assumed Enactment After 6/30/98			
(In Millions)			
1998-9	1999-0	2000-01	2001-02
(\$140)	(\$135)	(\$170)	(\$135)

Estimates reflect applied credits in the respective years and does not consider possible changes in employment, personal income, or gross state product that could result from this proposal.

Tax Revenue Discussion

The revenue impact for this provision of the bill would be determined by the number of vehicles smog tested by Bar-97 testing equipment and the available tax liabilities of taxpayers claiming the credits.

This estimate was developed in several steps. First, according to the California Smog Check Program Unit, the total number of smog checks required for 1996 and 1997 is 17.2 million, with approximately 60% in the first year and 40% in the second. Second, this number was reduced 10% to allow for those individuals who do not comply and non-operating vehicles. This number was further reduced 40% to allow for those vehicles located outside of the major metropolitan areas, which do not require testing by Bar-97 equipment. Third, it was estimated based on departmental data and the department's personal income tax model, that only 65% of the credits generated would be used due to insufficient tax liabilities. According to the same data, more than 80% of these credits would be applied in the first year, and the balance in the second year.

BOARD POSITION

At its March 26, 1998, meeting, the Franchise Tax Board considered this bill but did not take a position on the bill as introduced February 17, 1998. Julie Bornstein, on behalf of Controller Kathleen Connell, voted to be neutral; Member Dean Andal voted to support; and Robin J. Dezember, on behalf of Member Craig L. Brown, abstained.

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FRANCHISE TAX BOARD'S
PROPOSED AMENDMENTS TO AB 1914
As Amended April 15, 1998

AMENDMENT 1

On page 3, line 19, after "to" insert:

reduce

AMENDMENT 2

On page 4, line 9, after "to" insert:

reduce